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April 29, 2002

VIA HAND DELIVERY

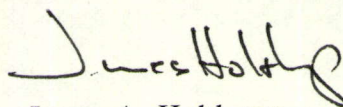
Wayne Hedberg  
Utah Division of Oil, Gas and Mining  
1594 West North Temple  
Salt Lake City, UT 84114-5801

Dear Mr. Hedberg:

As we discussed, enclosed is a draft Request for Approval of the Ash Grove Self-Bonding Agreement. As soon as you have had a chance to review it, I would very much appreciate your reaction.

We would like to have this go to the Board with the staff's support.

Very truly yours,



James A. Holtkamp

JAH:pa

Enclosures

RECEIVED

APR 29 2002

DIVISION OF  
OIL, GAS AND MINING

**BEFORE THE BOARD OF OIL, GAS AND MINING  
DEPARTMENT OF NATURAL RESOURCES  
STATE OF UTAH**

<b>IN THE MATTER OF THE REQUEST FOR AGENCY ACTION OF ASH GROVE CEMENT COMPANY FOR APPROVAL OF SELF BONDING AND INDEMNITY AGREEMENT FOR ITS OPERATIONS LOCATED IN JUAB COUNTY, UTAH</b>	<b>REQUEST FOR AGENCY ACTION</b>  <b>DOCKET NO:</b>  <b>CAUSE NO: M/</b>
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Ash Grove Cement Company ("Ash Grove") hereby petitions the Utah Board of Oil, Gas and Mining (the "Board") for approval of the Self Bonding and Indemnity Agreement, attached hereto as Exhibit 1.

**BACKGROUND**

1. Ash Grove is a Delaware Corporation in good standing and is qualified to conduct business in the State of Utah.
2. Ash Grove owns and operates the Leamington Cement Plant (the "Plant") and adjacent limestone quarry (the "Quarry") straddling Highway 132. The Plant and Quarry are located approximately 100 miles south of Salt Lake City, 23.5 miles southwest of Nephi, and 5 miles northeast of Leamington. The Plant and Quarry are situated south of and adjacent to the Sevier River in portions of sections 32, 33 and 34, Township 14 South, Range 3 West, and portions of Sections 3, 4 and 5, Township 15 South, Range 3 West, Salt Lake Base and Meridian, Juab and Millard Counties.
3. The Quarry produces approximately 975,000 tons of limestone and 14,000 tons of shale annually. The limestone and shale are used to manufacture Portland Cement at the Plant.
4. On October 17, 2001, Ash Grove submitted to the Division a Notice of Intent to Revise Mining Operations, in which it requested approval of a number of changes to Permit No. M/023/004, including revisions of the Permit Boundary, the disturbance limit boundary, and the reclamation surety to include all lands owned by Ash Grove in connection with the Plant and Quarry and future expansion of the Quarry.
5. The Utah Mined Land Reclamation Act (the "Act") requires that the operator of a mining operation provide surety to the Division of Oil, Gas and Mining (the "Division") in a

form and amount sufficient to ensure that approved reclamation is accomplished. Utah Code Ann. § 40-8-14.

6. The Act authorizes the Board to accept reclamation surety in the form of a written contract, taking into account the operator's financial status; its assets within the State; its past performance in complying with contractual agreements; its facilities available to carry out the work; the magnitude, type and costs of approved reclamation activities; and the nature, extent, and duration of approved operations. Utah Code Ann. § 40-8-14(3).

7. The Oil, Gas and Mining Rules (the "Rules") provide that the amount of surety is to be based upon (a) the technical details of the approved mining and reclamation plan, (b) the proposed post-mining land use, and (c) the projected engineering and administrative costs in case of forfeiture of the surety. UAC R647-4-113.3.

8. The estimated total reclamation cost for the Plant and Quarry in 2006 is \$4,342,500. The detailed breakdown of the projected reclamation costs is set forth in the Reclamation Surety Estimate Form, attached hereto as Exhibit 2.

9. Ash Grove has a Tangible Net Worth of \$860,097,144, which exceeds the minimum \$10,000,000 threshold set by the Division for self bonding. Ash Grove's Self Bonding Qualification Sheet is attached hereto as Exhibit 3. An audited financial statement for 2001 is attached hereto as Exhibit 4.

10. Ash Grove's assets within the State of Utah consist of the Plant and Quarry, along with loading terminals in Salt Lake County. The total value of Ash Grove's Utah assets is approximately \$78,494,265.

11. Ash Grove has complied with its contractual agreements and with the requirements of the Act and Rules.

12. Ash Grove has available both the facilities and the personnel necessary to carry out the required reclamation.

13. The magnitude, type and costs of the approved reclamation activities are set forth in Exhibit 2 attached hereto.

14. The nature, extent and duration of the operations subject to the reclamation requirements are set forth in its Notice of Intent and Permit No. M/023/004 on file with the Division.

15. Upon review and discussion with Division staff, Ash Grove has determined that it meets all of the Criteria for self bonding as set forth in the Act, the Rules and the Division's Self Bonding Qualification Sheet.

**REQUEST**

Based on the foregoing, Ash Grove requests that the Board approve the Self Bonding and Indemnity Agreement in the amount of \$4,342,500.

Respectfully submitted this \_\_\_\_\_ day of May, 2002.

LEBOEUF, LAMB, GREENE & MACRAE L.L.P.

---

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136 South Main Street  
Salt Lake City, UT 84101-1685  
Telephone: (801) 320-6747  
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E-mail: james.holtkamp@llgm.com

ASH GROVE CEMENT COMPANY

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Assistant General Counsel  
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Overland Park, KS 66225  
Telephone: (913) 319-6005  
Fax: (913) 451-8324  
E-mail: eileen.flink@ashgrove.com

Attorneys for Ash Grove Cement Company

(January 2000)

**STATE OF UTAH**  
**DEPARTMENT OF NATURAL RESOURCES**  
**DIVISION OF OIL, GAS AND MINING**  
1594 West North Temple, Suite 1210  
Box 145801  
Salt Lake City, Utah 84114-5801  
Telephone: (801) 538-5291  
Fax: (801) 359-3940

**SELF BONDING AND INDEMNITY AGREEMENT**

\*\*\*\*\*

This Self Bonding and Indemnity Agreement ("Agreement") is entered into by and between Ash Grove Cement Company ("Operator") and the State of Utah, Department of Natural Resources, Board of Oil, Gas and Mining ("Board"). The Board and the Operator find that:

WHEREAS, pursuant to the Mined Land Reclamation Act, §40-8-1 et seq., Utah Code Annotated (1953, as amended) ("Act") and applicable rules, the Operator has obtained Permit No. M/023/004 from the Division of Oil, Gas and Mining ("Division") to operate the Leamington Plant and Quarry, a limestone quarry, in Juab County, Utah, which location is more specifically described in Exhibit A-, and,

WHEREAS, the Board and the Operator agree that, upon permanent cessation of operations, complete reclamation of the Leamington Plant and Quarry pursuant to Permit No. M/023/004, including revisions and amendments (collectively "Permit"), the Act, and applicable rules is essential to protect the land from future harm due to prolonged deterioration; and,

WHEREAS, the Operator has requested that the Board accept a written contractual agreement as the form of reclamation surety required by the Act; and,

WHEREAS, the Operator has designated C T Corporation System, 50 West Broadway, 8th Floor, Salt Lake City, Utah 84101-2006 as its agent for service of process in the State of Utah; and,

WHEREAS, the Operator has been in continuous operation as a business entity for the last five years; and,

WHEREAS, as is indicated on the attached financial sheet, the Operator meets the financial criteria for a written contractual agreement; and,

WHEREAS, the Operator has submitted to the Division and Board financial statements which are accompanied by an audit opinion prepared by KPMG LLP which indicated compliance with the financial criteria.

NOW, THEREFORE, in return for permission to mine pursuant to the Act, the applicable rules and the Permit, in addition to other consideration, the sufficiency and receipt of which is hereby acknowledged, the Operator agrees to be held and bonds to the Board for the sum of \$4,342,500 in United States currency for the timely performance of reclamation responsibilities for the Leamington Plant and Quarry, Permit No. M/023/004. By the submission of this Agreement, the Operator will and truly binds itself, its successors and assigns, jointly and severally, by these presents.

The conditions of the above obligations are such that:



1. The Operator shall perform all duties and fulfill all requirements applicable to reclamation of the Leamington Plant and Quarry as set forth in the Act, the applicable rules, and the terms of the Permit.

2. The liability under this Agreement is conditioned upon successful reclamation of the permit area as provided in the reclamation plan for the Permit for the period of time and in the manner specified in the Act, the applicable rules, and the terms of the Permit. The liability or responsibility of the Operator hereunder is \$4,342,500, provided that the Board may adjust the amount of liability hereunder as provided in Section 5 hereof.

3. Ash Grove Cement Company (Operator) hereby agrees to indemnify and hold the Board and Division harmless from any claim, demand, liability, costs, charge, or suit brought by a third party as a result of the Operator's failure to abide by the terms and conditions of the Reclamation Plan as set forth in the Permit and from any failure to comply with the terms of this Agreement.

4. Upon successful completion of part or all of the obligations secured hereby, the Operator may petition the Board for a final release of part or all of the obligations under this Agreement. Upon such petition, the Division shall conduct an Inspection to ascertain whether duties and obligations of the Operator under the Act, the applicable rules, and the Permit have been fulfilled. If it is determined that such duties and obligations have been fulfilled, the Board shall release the Operator from part or all of its obligations under this Agreement and shall file a notice of such release in the property records of Juab County, Utah.

5. Periodically or at the request of the Operator, this Agreement shall be reviewed by the Division and the amount of liability adjusted if the Division determines that the cost of future reclamation has materially changed.

6. The Operator may terminate this Agreement by providing written notice to the Board no less than 120 days prior to the date of termination. The Operator must provide an alternate reclamation surety in the form and amount satisfactory to the Board prior to 30 days before the stated date of termination.

7. The Board may terminate this Agreement by providing written notice to the Operator no less than 120 days prior to the date of termination unless the Board determines that the Operator no longer meets the financial criteria for a written contractual agreement whereupon the Board may shorten the above-stated notice period for termination of this Agreement. The Operator must provide an alternate reclamation surety in the form and amount satisfactory to the Board prior to 30 days before the stated date of termination.

8. If the Operator fails, within the time periods set out in paragraphs six and seven of this Agreement, to provide an alternative reclamation surety satisfactory to the Board, the Division or Board may pursue any available remedies, including, but not limited to, the direction to cease all operations at the Leamington Plant and Quarry and the direction to initiate and complete all reclamation operations at the Leamington Plant and Quarry.

9. This Agreement will be governed and interpreted according to Utah law.



10. In addition to any other liability described above, the Operator shall pay reasonable attorney fees and costs incurred by the Board if the Board is successful in any action or suit regarding this Agreement.

SO AGREED this \_\_\_\_\_ day of \_\_\_\_\_, 2002.

Ash Grove Cement Company  
Operator/Company Name

\_\_\_\_\_  
Date

\_\_\_\_\_  
Corporate Officer Name and Title

\_\_\_\_\_  
Date

\_\_\_\_\_  
Corporate Officer Name and Title

\_\_\_\_\_  
Date

\_\_\_\_\_  
Chairman, Board of 011, Gas and Mining

STATE OF \_\_\_\_\_ )  
 ) ss:  
COUNTY OF \_\_\_\_\_ )

On the \_\_\_\_\_ day of \_\_\_\_\_, 2002, personally appeared before me  
\_\_\_\_\_ and \_\_\_\_\_ who being by  
me duly sworn did say that he, the said \_\_\_\_\_ is the  
\_\_\_\_\_ of Ash Grove Cement Company and the said \_\_\_\_\_  
\_\_\_\_\_ is the \_\_\_\_\_ of Ash Grove Cement Company  
and said instrument was signed in behalf of said corporation by authority of its bylaws  
or a resolution of its board of directors and said \_\_\_\_\_ and \_\_\_\_\_  
\_\_\_\_\_ duly acknowledged to me that said  
corporation executed the same.

\_\_\_\_\_  
Notary Public

Residing at: \_\_\_\_\_

My Commission Expires:

\_\_\_\_\_

Selfbond.doc

EXHIBIT A  
TO  
SELF BONDING AND INDEMNITY AGREEMENT

The Leamington Cement Plant and the adjacent limestone quarry straddle Utah State Highway 132 in eastern Juab County, Utah. The Plant and the Quarry are located approximately 23.5 miles southwest of Nephi, Utah and 5 miles northeast of the town of Leamington, Utah. This location is approximately 100 miles south of Salt Lake City. The Facility is situated south of and adjacent to the Sevier River in part of Sections 32, Section 33 and 34 – Township 14 South – Range 3 West and parts of Sections 3, 4 and 5 – Township 15 South – Range 3 West in Juab and Millard Counties.

## 1 RECLAMATION SURETY ESTIMATE

2 Ash Grove Cement Company

3 Leamington Plant &amp; Quarry

4 M023/004

last revision

09/10/01

filename M000-000 W62

Juab County

5 Prepared by Utah State Division of Oil, Gas &amp; Mining

6 This estimate was prepared by Ash Grove Cement Co.

7 Numbered activities noted below correspond to features shown on the drawing # R647-4-105.2P

8 Surface Facilities &amp; R647-4-105.2Q - Quarry

9 Amounts noted below reflect a total dollar amount of all activities required to reclaim each feature.

10 Ash Grove's surety estimate attached which identifies activities &amp; costs involved with each feature

11 Note: actual unit costs may vary according to site conditions last unit cost update 2-Aug-2000

12 -Amount of disturbed area which will receive reclamation treatments = 542.0 acres

13 -Estimated total disturbed area for this mine = 669.0 acres

Activity	Quantity	Units	\$/unit	\$	Note
#1-6 Truck Silo Demolition				47,673.08	
#7 Large Truck Silo Demolition				18,000.80	
#8 Conveyor Demolition				26,208.04	
#9 Bath House				25,717.89	
#10 Administration Office				35,447.46	
#11 Cafeteria				22,960.69	
#12-13 Field Tile & Septic Tanks				1,508.60	
#14 Man Tunnel				1,515.40	
#15 Break Room/Restroom				3,148.96	
#16 Switch Gear #1				6,984.10	
#17 Electric Sub Station				28,364.95	
#18-21 Waste Oil, Gasoline, #2 Diesel & #1 Diesel Storage				14,942.60	
#22 Storage				19,702.57	
#23 Mobil Equipment				17,846.93	
#24 Waste Oil Storage				1,238.71	
#25 Lube Storage				1,879.90	
#26 Conveyor				5,797.53	
#27 Raw Materials Truck Dump				9,000.45	
#28 Storage				486.60	
#29 Raw Materials Silos quantity 5				9,199.84	
#30 Warehouse				34,006.74	
#31 Maintenance Shop				30,144.35	
#32 Bag House				22,453.26	
#33 Water Tank				3,381.43	
#34 Supply Storage Yard				37,437.21	
#35 Diesel Storage				6,786.20	
#36 Storage Buildings				701.34	
#37-38 Blend Silos				8,881.74	
#39 Lube/Hydraulic Oil Storage				741.43	
#40 Raw Mill				23,489.77	
#41 Switch Gear #4				9,271.08	
#42 Finish Mill				37,219.05	
#43 Preheat Tower				41,351.21	
#44 Alkali Bag House				4,863.67	
#45 Storage				611.52	
#46 Pipeline				93.85	
#47 Stack				1,233.61	
#48 Coal Silo				6,257.79	
#49 Kiln Scanner Building				136.19	
#50 Coal Truck Dump				15,125.00	
#51 Control Room & Lab				47,849.01	
#52 Switch Gear #7				8,911.95	
#53 Burner Floor				4,975.95	
#54 Heat Exchanger				6,145.13	
#55 Bag House				6,449.17	
#55 Power Wash Room				520.14	
#57 Water Treatment Glycol Cooler				2,268.31	
#58 Gypsum Silo				1,377.86	

#59-bu Clinker Silos			25,543.52
#61 Truck Scale			8,411.92
#62 Scale House			41.21
#63 Clinker Storage			8,583.82
#64 Water Supply Well			520.14
#65 First Aid Room			5,482.61
#66 Instrument Shop			279.30
#67 Stack			2,840.30
#68 Stack			1,233.61
#69 Kiln			4,353.16
#70 Off Spec Clinker Silo			3,949.24
#71 Clinker Elevator			1,534.81
#72 Glycol Distribution Building			2,102.45
#73 Tunnel Clinker Silos			20,875.31
#74 Clinker Conveyor			3,712.62
#75 Bridge over Canal			5,116.02
#76 Process Duct			10,133.96
#77 Cement Distribution Point to Silos			3,712.62
#100 Switch Gear #2			2,527.06
#101 Crusher			15,049.78
#102 Lunch Room			2,580.78
#103 Pump House			124.10
#104 Water Tank			690.09
#105 Diesel Fuel Tank			1,349.24
#106 C-111 Cover			1,917.16
#107 Switch Gear #3			2,266.41
#108 B-8 Overland Belt			18,386.29
#109 Hopper			510.10
#110 Transfer Tower			7,701.60
#111 Stacker/reclaimer			103,570.46
#112 Cap Magazine			15.20
#113 Anfo Trailer Storage			0.00
#114 Detonator Magazine			199.50
#115 Anfo bin			303.25
Demolition of Concrete, Asphalt Roadways & flatworks in Process Area			1,003,365.12
Reclaim North Access Road			103,472.42
Reclaim South Access Road			306,212.47
Install Drainage Channels			122,396.47
Reclaim Pond #2			7,036.64
Reclaim Pond #3			2,934.88
Reclaim Pond #4			1,732.64
Reclaim Pond #5			450.84
Reclaim Pond #6			7,284.16
Reclaim Proposed Road			14,603.68
Ripping Road Under Conveyor Belt			8,527.62
Ripping Exploration Roads SE of Quarry - Burma Road			51,277.68
Ripping remaining Portion of a Branch Road to Process Facilities			2,009.06
Ripping on the West Side of Quarry			34,521.00
Ripping road to Quartzite Quarry			24,083.84
Ripping Road to Stacker/Reclaimer			8,527.62
Reclamation Revegetation of Disturbed Area	542.0 Acres		662,092.20
Composted Manure - 10 tons/acre	279.0 Acres	300	83,700.00
General Site Clean-up	45.0 Acres	50	2,250.00
Reclamation Supervision	30 Days	372	11,160.00
		Subtotal	3,383,937
10% Contingency			338,394
		Subtotal	\$3,722,331
Escalate for 5 years at 3.13% per yr			620,171
		Total	\$4,342,502
		Rounded surety amount in yr 2006-\$	\$4,342,500
Average cost per disturbed acre =		30.481	

NONCOAL  
(1989)

Mine Name \_\_\_\_\_

Permit No. \_\_\_\_\_

Date \_\_\_\_\_

Checked by \_\_\_\_\_

## SELF BONDING QUALIFICATION SHEET

Applicant required to meet one of the following criteria:

1. Current rating for most recent bond issuance  
("A" or higher) (Moody's Investor Service or  
Standard and Poor's Corporation) \_\_\_\_\_

or

2. A. Tangible Net Worth = (at least \$10 Million)  
(Net worth minus intangibles [Goodwill and  
rights to patents or royalties]) \$ 860,097,144
- B. Total Liabilities/Net Worth  
(2.5 times or less) = .26
- C. Current Assets/Current Liabilities  
(1.2 times or greater) = 5.0
- Reference: Audited 12/31/01 Statements

or

3. A. Fixed assets in the United States  
(at least \$20 million) = \$ \_\_\_\_\_
- B. Total Liabilities/Net Worth  
(2.5 times or less) = \_\_\_\_\_
- C. Current Assets/Current Liabilities  
(1.2 times or greater) = \_\_\_\_\_
- Reference: \_\_\_\_\_

Has the operator been in continuous operation of not less than five (5) years (immediately preceding the time of application) (submitted five annual reports)?

Yes \_\_\_\_\_ No \_\_\_\_\_

Has the operator furnished financial statements prepared by an independent certified public accountant in conformity with generally accepted accounting principles?

Yes \_\_\_\_\_ No \_\_\_\_\_

Has the operator furnished unaudited financial statements for completed quarters in the current fiscal year?

Yes \_\_\_\_\_ No \_\_\_\_\_

Has the operator supplied other useful information for determining financial qualification?

Yes \_\_\_\_\_ No \_\_\_\_\_



**ASH GROVE CEMENT COMPANY AND SUBSIDIARIES**

**Consolidated Financial Statements and Supplementary Data**

**December 31, 2001**

**(With Independent Auditors' Reports Thereon)**

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# ASH GROVE CEMENT COMPANY AND SUBSIDIARIES

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1000 Walnut  
Suite 1600  
Kansas City, MO 64106

## **Independent Auditors' Report**

The Board of Directors  
Ash Grove Cement Company:

We have audited the accompanying consolidated balance sheet of Ash Grove Cement Company and subsidiaries as of December 31, 2001, and the related consolidated statements of earnings, comprehensive income, stockholders' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ash Grove Cement Company and subsidiaries at December 31, 2001, and the results of their operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 14 to the consolidated financial statements, effective December 31, 2000, the Company acquired all of the outstanding common shares of its parent in a business combination accounted for as a downstream merger. As a result of the acquisition, the consolidated financial information for 2001 is presented on a different cost basis than that for the periods before the merger and, therefore, is not comparable. As discussed in note 13 to the consolidated financial statements, effective for the year ended December 31, 2001, the Company has given retroactive effect to the change in its method of accounting for stores and supplies inventories from the last-in, first-out (LIFO) method to the first-in, first-out (FIFO) method.

**KPMG LLP**

February 15, 2002



KPMG LLP, KPMG LLP, a U.S. limited liability partnership, is  
a member of KPMG International, a Swiss association.

## Liabilities and Stockholders' Equity

Current liabilities:	
Current installments of long-term debt (note 5)	\$ 6,830,152
Notes payable	1,280,306
Accounts payable	22,742,762
Taxes withheld for taxing authorities	1,309,743
Accrued taxes	3,449,478
Accrued expenses	17,401,424
Total current liabilities	<u>53,013,865</u>
Other liabilities:	
Long-term debt, less current installments (note 5)	59,762,712
Deferred income taxes (note 6)	74,251,561
Postretirement benefit obligation (note 7)	38,847,952
Deferred liabilities	4,729,891
Minority interest (note 8)	6,029,775
Total other liabilities	<u>183,621,891</u>
Stockholders' equity (notes 5 and 9):	
Common stock without par value. Authorized	
10,000,000 shares; issued 1,840,463 shares	4,601,158
Class B common stock without par value. Authorized	
5,000,000 shares; issued 4,579,400 shares	11,448,500
Class C common stock without par value. Authorized	
3,000,000 shares; issued 2,726,112 shares	6,815,280
Additional paid-in capital	346,683,523
Retained earnings	596,279,972
Accumulated other comprehensive income	2,234,976
	<u>968,063,409</u>
Less cost of common stock in treasury of 646,377 shares	57,818,263
Total stockholders' equity	<u>910,245,146</u>
Commitments and contingencies (notes 8, 10 and 12)	
	<u><u>\$ 1,146,880,902</u></u>

# ASH GROVE CEMENT COMPANY AND SUBSIDIARIES

## Consolidated Statement of Earnings

Year ended December 31, 2001

Net sales	\$ 682,901,420
Cost of sales	<u>519,978,545</u>
Gross profit	162,922,875
Selling, general, and administrative expenses	<u>54,134,137</u>
Operating income	<u>108,788,738</u>
Other income (deductions):	
Interest income	3,954,709
Interest expense	(2,200,450)
Equity in net earnings of joint ventures (note 4)	15,165,464
Minority owners' equity in net earnings of subsidiary	(676,707)
Miscellaneous, net	<u>(1,672,344)</u>
Total other income	<u>14,570,672</u>
Earnings before income taxes	<u>123,359,410</u>
Income taxes (note 6):	
Current	43,270,000
Deferred	<u>262,000</u>
	<u>43,532,000</u>
Net earnings	<u>\$ 79,827,410</u>
Net earnings per common share – basic and diluted	<u>\$ 9.38</u>

See accompanying notes to consolidated financial statements.

# ASH GROVE CEMENT COMPANY AND SUBSIDIARIES

## Consolidated Statement of Comprehensive Income

Year ended December 31, 2001

Net earnings	\$ 79,827,410
Other comprehensive income:	
Net change in fair value of marketable securities available-for-sale, net of taxes of \$55,243	(98,566)
Foreign currency translation adjustments, net of taxes of \$164,000	<u>(265,382)</u>
Comprehensive income	<u>\$ 79,463,462</u>

See accompanying notes to consolidated financial statements.

**ASH GROVE CEMENT COMPANY AND SUBSIDIARIES**

Consolidated Statement of Stockholders' Equity

Year ended December 31, 2001

	Common Stock	Class B common Stock	Class C common Stock	Additional paid-in capital	Retained earnings	Accumulated Other Comprehensive Income				Treasury Stock	Total
						Foreign currency translation	Marketable investment securities	Pension liability adjustments			
Balance at December 30, 2000, as previously reported	\$ 10,556,788	9,443,212	-	717,571	696,754,671	(816,537)	2,440,364	(270,955)	(54,672,701)		664,152,413
Effect of downstream merger with parent (note 14)	(5,972,350)	2,022,008	6,815,280	345,965,952	(168,887,926)	-	1,246,052	-	-		181,189,016
Change in accounting principle (note 13)	-	-	-	-	1,348,745	-	-	-	-		1,348,745
Balance at December 31, 2000	4,584,438	11,465,220	6,815,280	346,683,523	529,215,490	(816,537)	3,686,416	(270,955)	(54,672,701)		846,690,174
Net earnings	-	-	-	-	79,827,410	-	-	-	-		79,827,410
Cash dividends (\$1.50 per common share)	-	-	-	-	(12,762,928)	-	-	-	-		(12,762,928)
Conversion of Class B common stock to common stock (6,688 shares)	16,720	(16,720)	-	-	-	-	-	-	-		-
Purchase of treasury stock (28,372 shares)	-	-	-	-	-	-	-	-	(3,145,562)		(3,145,562)
Net change in fair value of marketable securities available-for-sale	-	-	-	-	-	-	(98,566)	-	-		(98,566)
Foreign currency translation adjustments	-	-	-	-	-	(265,382)	-	-	-		(265,382)
Balance at December 31, 2001	\$ 4,601,158	11,448,500	6,815,280	346,683,523	596,279,972	(1,081,919)	3,587,850	(270,955)	(57,818,263)		910,245,146

See accompanying notes to consolidated financial statements.

# ASH GROVE CEMENT COMPANY AND SUBSIDIARIES

## Consolidated Statement of Cash Flows

Year ended December 31, 2001

Cash flows from operating activities:	
Net earnings	\$ 79,827,410
Adjustments to reconcile net earnings to net cash provided by operating activities:	
Depreciation and amortization	62,403,574
Deferred income tax provision	262,000
Equity in net earnings of joint ventures	(15,165,464)
Minority owners' equity in undistributed earnings of subsidiary, net of cash dividends	(109,596)
Gain on sale of property, plant, and equipment, net	(239,126)
Changes in assets and liabilities:	
Receivables	(20,003,797)
Inventories	(1,042,079)
Real estate held for sale	1,417,147
Prepaid expenses and other assets	(4,912,526)
Accounts payable and other liabilities	8,880,722
Net cash provided by operating activities	<u>111,318,265</u>
Cash flows from investing activities:	
Additions to property, plant, and equipment	(110,520,883)
Cost of companies acquired, net of cash acquired	(22,442,315)
Dividends received from joint ventures	11,749,899
Proceeds from sale of property, plant, and equipment	2,888,576
Increase in land held for investment purposes	(53,032)
Use of funds held in escrow	37,332,631
Net cash used in investing activities	<u>(81,045,124)</u>
Cash flows from financing activities:	
Payments on long-term debt	(6,834,152)
Dividends paid	(12,762,928)
Purchase of treasury stock	(3,145,562)
Net cash used in financing activities	<u>(22,742,642)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>207,577</u>
Net increase in cash and cash equivalents	7,738,076
Cash and cash equivalents at beginning of year	<u>83,388,086</u>
Cash and cash equivalents at end of year	<u>\$ 91,126,162</u>
Supplemental disclosures of cash flow information:	
Cash paid during the year for:	
Interest, net of amount capitalized	\$ <u>4,913,000</u>
Income taxes	\$ <u>38,862,000</u>

See accompanying notes to consolidated financial statements.



# ASH GROVE CEMENT COMPANY AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

December 31, 2001

### (1) Summary of Significant Accounting Policies

#### (a) *Basis of Consolidation and Investment in Affiliates*

The consolidated financial statements include the accounts of Ash Grove Cement Company (the Company), its wholly owned subsidiaries, and its 60.7% owned subsidiary, Concrete Company of Springfield (Conco). All significant intercompany accounts and transactions have been eliminated in consolidation.

On December 31, 2000, Ash Grove Cement Company acquired all outstanding common shares of Vinton Corporation, the majority shareholder of 66.6% of the common stock of the Company. This transaction is more fully discussed in note 14.

#### (b) *Marketable Securities*

The Company classifies its marketable securities, consisting of equity securities, as available-for-sale. Accordingly, these securities are carried at market value. Unrealized holding gains and losses, net of the related deferred tax effect, are reported as a component of accumulated other comprehensive income until realized. Unrealized losses deemed to be other than temporary are charged to earnings, resulting in the establishment of a new cost basis for the related security. Realized gains and losses on sales of investment securities are recognized in net earnings and are derived using the specific identification method.

#### (c) *Inventories*

All inventories of cement and products used in the manufacture of cement are carried at the lower of cost (last-in, first-out cost (LIFO) or average cost methods) or market (net realizable value). All inventories of Conco and Ash Grove Materials Corporation and all stores and supplies inventories are valued at the lower of first-in, first-out (FIFO) or market (net realizable value).

#### (d) *Property, Plant, and Equipment*

Property, plant, and equipment are stated at cost of acquisition or construction. Maintenance and repairs are charged to operations as incurred. Renewals and betterments are capitalized as additions to the appropriate asset accounts.

Upon sale or retirement of assets, the cost and related accumulated depreciation applicable to such assets are removed from the accounts, and any resulting gain or loss is reported in the consolidated statement of earnings.

The Company capitalizes the cost of interest on borrowed funds, which are utilized to finance the construction of property, plant, and equipment. Such capitalized interest costs are charged to the property, plant, and equipment accounts and are amortized as depreciation over the estimated useful lives of the assets.

## ASH GROVE CEMENT COMPANY AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

December 31, 2001

(e) ***Depreciation***

The Company depreciates property, plant, and equipment over the useful lives of the various assets, which range from three to forty years, using principally the straight-line method for financial reporting purposes and accelerated methods for income tax purposes.

(f) ***Real Estate Held For Sale and Costs of Real Estate Development***

Real estate held for sale and costs of real estate development represent costs associated with a 3,600 acre residential and commercial development. Real estate held for sale represents land that has been developed and is ready for sale.

(g) ***Investment in Joint Ventures***

The Company and its subsidiaries are involved in certain joint ventures in which they have 50% ownership interests. These investments are accounted for by the equity method.

(h) ***Income Taxes***

The Company recognizes deferred tax assets and liabilities for the future tax consequences of "temporary differences" by applying enacted statutory tax laws and rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of the respective assets and liabilities. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the period that includes the enactment date.

(i) ***Retirement Plans***

The policy of the Company is to fund retirement costs related to its defined benefit retirement plans in amounts sufficient to satisfy the minimum funding requirements under the Employee Retirement Income Security Act of 1974 (ERISA). Additional amounts are funded based on recommendations of consulting actuaries.

The cost of postretirement benefits other than pensions is recognized on an accrual basis as employees perform services.

(j) ***Foreign Currency Translation***

The functional currency for the Company's foreign operations is the applicable local currency. The translation of the applicable foreign currency into U. S. dollars is performed for balance sheet accounts using exchange rates in effect at the balance sheet date, and for revenue and expense accounts using a weighted average exchange rate during the period. The gains or losses, net of the related deferred tax effect, resulting from such translation are included in accumulated other comprehensive income.

## ASH GROVE CEMENT COMPANY AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

December 31, 2001

**(k) Share and Per Share Data**

Earnings per common share – basic is based on the weighted average number of common shares outstanding, net of shares held in treasury. The average number of shares was 8,513,506 in 2001. The Company has no stock options or other dilutive securities. Accordingly, earnings per share – basic and diluted are the same amount.

**(l) Disclosures About Fair Values of Financial Instruments**

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

- *Cash and short-term investments* – The carrying amounts approximate fair value because of the short maturity of those instruments. Short-term investments with original maturities of less than ninety days are considered cash equivalents.
- *Long-term investments* – The carrying values of marketable equity securities are based on quoted market prices for those investments.
- *Long-term debt* – The fair value of the Company's long-term debt is estimated based on the current rates offered to the Company for debt of the same remaining maturities or on the estimated market prices for the same or similar issues.

The carrying value and fair value of long-term debt at December 31, 2001 were as follows:

Carrying value	\$ 66,593,000
Fair value	<u>68,935,000</u>

**(m) Cash Equivalents**

For purposes of the consolidated statements of cash flows, the Company considers all demand deposits and short-term investments with original maturities of three months or less to be cash equivalents.

**(n) Use of Estimates in the Preparation of Consolidated Financial Statements**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

# ASH GROVE CEMENT COMPANY AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

December 31, 2001

### (o) *Accumulated Other Comprehensive Income*

The components of accumulated other comprehensive income, net of tax, are as follows:

		Foreign currency translation	Unrealized holding gains on marketable investment securities	Additional minimum pension liability	Total
Balance at					
December 31, 2000	\$	(816,537)	3,686,416	(270,955)	2,598,924
Change in 2001		(265,382)	(98,566)	—	(363,948)
Balance at					
December 31, 2001	\$	<u>(1,081,919)</u>	<u>3,587,850</u>	<u>(270,955)</u>	<u>2,234,976</u>

### (p) *Revenue Recognition*

The Company recognizes revenue on sales when products are shipped and the customer takes ownership and assumes risk of loss.

### (q) *Recently Issued Accounting Standards*

In June 2001, the FASB issued SFAS No. 141, Business Combinations, (SFAS No. 141) and SFAS No. 142, Goodwill and Other Intangible Assets (SFAS No. 142). SFAS No. 141 requires that the purchase method of accounting be used for all business combinations. SFAS No. 141 specifies criteria that intangible assets acquired in a business combination must meet to be recognized and reported separately from goodwill. SFAS No. 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121 and subsequently, SFAS No. 144 after its adoption.

The Company adopted the provisions of SFAS No. 141 as of July 1, 2001, and SFAS No. 142 is effective January 1, 2002. Goodwill and intangible assets determined to have an indefinite useful life acquired in a purchase business combination completed after June 30, 2001, but before SFAS No. 142 is adopted in full, are not amortized. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 continued to be amortized and tested for impairment prior to the full adoption of SFAS No. 142.

## ASH GROVE CEMENT COMPANY AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

December 31, 2001

Upon adoption of SFAS No.142, the Company is required to evaluate its existing intangible assets and goodwill that were acquired in purchase business combinations, and to make any necessary reclassifications in order to conform with the new classification criteria in SFAS No. 141 for recognition separate from goodwill. The Company will be required to reassess the useful lives and residual values of all intangible assets acquired, and make any necessary amortization period adjustments by the end of the first interim period after adoption. If an intangible asset is identified as having an indefinite useful life, the Company will be required to test the intangible asset for impairment in accordance with the provisions of SFAS No. 142. Impairment is measured as the excess of carrying value over the fair value of an intangible asset with an indefinite life. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle.

As of January 1, 2002, the Company has unamortized goodwill in the amount of \$48,237,691 and unamortized identifiable intangible assets in the amount of \$1,910,311, all of which will be subject to the transition provisions of SFAS No. 142. Amortization expense related to goodwill was \$3,321,455 for the year ended December 31, 2001. The Company will cease amortization of goodwill, effective January 1, 2002.

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations (SFAS No. 143). SFAS No. 143 requires the Company to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. The Company also records a corresponding asset which is depreciated over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The Company is required to adopt SFAS No.143 on January 1, 2003.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No.144). SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This Statement requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. SFAS No. 144 requires companies to separately report discontinued operations and extends that reporting to a component of an entity that either has been disposed of (by sale, abandonment, or in a distribution to owners) or is classified as held for sale. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. The Company is required to adopt SFAS No. 144 on January 1, 2002.

The Company does not expect to recognize any transitional impairment losses as a result of implementing SFAS Nos. 141, 142, or 144.

## ASH GROVE CEMENT COMPANY AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

December 31, 2001

#### (2) Inventories

A summary of inventories at December 31, 2001 is as follows:

Cement, products used in the manufacture of cement, and lime (LIFO)	\$ 35,490,833
Rock and ready-mix concrete materials (FIFO)	10,535,113
Rock and ready-mix concrete materials (LIFO and average cost methods)	6,595,910
Stores and supplies (FIFO)	<u>31,969,633</u>
	<u>\$ 84,591,489</u>

#### (3) Property, Plant, and Equipment

A summary of property, plant, and equipment by major category at December 31, 2001 is as follows:

Land and improvements	\$ 24,176,180
Buildings and improvements	154,488,842
Machinery and equipment	993,618,466
Rental property	4,886,196
Furniture and fixtures	27,545,376
Construction in progress	<u>14,170,512</u>
	1,218,885,572
Less accumulated depreciation and depletion	<u>498,775,883</u>
	<u>\$ 720,109,689</u>

Interest capitalized amounted to approximately \$2,429,000 in 2001.

#### (4) Investment in Joint Ventures

On March 1, 1994, the Company acquired a 49% limited partnership interest and a 1% general partnership interest in the North Texas Cement Company, a Texas limited partnership (North Texas Cement). The purchase price in excess of the Company's share of net assets of North Texas Cement, \$11,157,000, is being amortized on a straight-line basis over nine years. In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*, the Company will cease amortization of this amount effective January 1, 2002.

North Texas Cement owns and operates a cement manufacturing facility located in Midlothian, Texas and an import terminal in Houston, Texas. North Texas Cement markets cement primarily in Texas and Oklahoma. The Company purchased approximately \$11,184,000 of cement products from North Texas Cement in 2001.

## ASH GROVE CEMENT COMPANY AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

December 31, 2001

Summary audited financial information for North Texas Cement as of and for the year ended December 31, 2001 follows:

Property, plant, and equipment, net	\$ 95,506,494
Other	<u>32,211,482</u>
Total assets	<u>\$ 127,717,976</u>
Long-term debt	\$ 13,147,500
Other liabilities	<u>21,774,986</u>
Total liabilities	<u>\$ 34,922,486</u>
Company's capital	\$ 46,397,745
Other partner's capital	<u>46,397,745</u>
Total partners' capital	<u>\$ 92,795,490</u>
Net sales	<u>\$ 115,661,842</u>
Partnership income	<u>\$ 32,710,427</u>

Condensed financial information relating to the Company's investments in other joint ventures is not presented, as the Company's interests in these joint ventures are not material.

#### (5) Long-Term Debt

A summary of long-term debt at December 31, 2001 is as follows:

Fixed rate term loans, 7.75% to 9.67%	\$ 32,942,864
Industrial revenue bonds, fixed and variable rate term bonds, weighted average rate of 3.2%	<u>33,650,000</u>
Total long-term debt	66,592,864
Less current installments	<u>6,830,152</u>
	<u>\$ 59,762,712</u>

The fixed rate term loans are unsecured with maturities from December 2002 to June 2006.

The industrial revenue bonds are secured by the related facilities constructed, are guaranteed by the Company, and mature December 2004 through October 2035.

The Company has entered into a Master Shelf Agreement (the Agreement) with a financial institution (the lender) which provides the Company the option of issuing up to \$10 million in senior promissory notes to the lender. The notes have a maturity of no more than fifteen years and pay interest at rates and intervals determined by the parties at the date of issuance. At December 31, 2001, the Company had issued \$10 million of senior promissory notes under the Agreement, which are included in the fixed rate term loan total above. The note matures June 18, 2006.



## ASH GROVE CEMENT COMPANY AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

December 31, 2001

In June 2000, the Company entered into an agreement with the City of Chanute, Kansas for the issuance of \$25,100,000 of Industrial Development Revenue Bonds (IDRBs) (Ash Grove Cement Company Project) series 2000. As of December 30, 2000, the full \$25,100,000 had been issued to various purchasers at variable interest rates; the principal matures in 2035.

The Company also has \$28,000,000 in unsecured lines of credit which require interest payments monthly at quoted market rates and expire in August 2002. No borrowings were outstanding under the lines of credit at December 31, 2001.

Approximate long-term debt maturities at December 31, 2001 are as follows: 2002 – \$6,830,000; 2003 – \$6,850,000; 2004 – \$10,870,000; 2005 – \$3,562,000; 2006 – \$10,000,000; thereafter – \$27,980,000.

Certain of the Company's debt agreements contain restrictions as to maintenance of minimum cash flow, working capital and current ratio, payment of cash dividends, issuance of additional subsidiary stock, and incurrence of additional secured and unsecured indebtedness. The Company is in compliance with such restrictions at December 31, 2001.

#### (6) Income Taxes

Total income tax expense in 2001 amounted to \$43,532,000. These amounts differ from the amounts computed by applying the federal statutory rate for the following reasons:

	<u>Amount</u>	<u>Percent</u>
Computed "expected" tax	\$ 43,176,000	35.0 %
Adjustments resulting from:		
Excess of tax over book depletion	(3,644,000)	(2.9)
State and local taxes, net of federal tax benefit	2,681,000	2.2
Minority owners' equity in net earnings of subsidiary	295,000	0.2
Other items	1,024,000	0.8
	<u>\$ 43,532,000</u>	<u>35.3 %</u>

Included in income tax expense is state and local income taxes amounting to approximately \$4,124,000 in 2001.

# ASH GROVE CEMENT COMPANY AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

December 31, 2001

Temporary differences which give rise to a significant portion of deferred tax assets and liabilities at December 31, 2001 is as follows:

Depreciation and amortization	\$ 69,920,449
Postretirement obligation	(14,985,599)
Prepaid pension costs	11,658,991
Unrealized gains on marketable securities	2,274,421
Investment in joint venture	1,021,365
Other	4,361,934
Noncurrent deferred income tax liability	<u>74,251,561</u>
Accounts receivable reserves	(1,600,138)
Accrued vacation	(2,054,200)
Other	(2,562,662)
Current deferred income tax asset	<u>(6,217,000)</u>
Net deferred income taxes	<u>\$ 68,034,561</u>

No valuation allowance was required for deferred tax assets at December 31, 2001.

The consolidated federal income tax returns of the Company have been examined by the Internal Revenue Service through 1996. The 1998 and 1999 consolidated federal income tax returns are being examined. It is management's opinion that adequate provision has been made for additional income tax liabilities, if any, related to these examinations.

# ASH GROVE CEMENT COMPANY AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

December 31, 2001

### (7) Employee Benefits

#### Pensions

Substantially all of the Company's employees are covered by various pension plans. The following items are components of net pension benefit for the year ended December 31, 2001:

	Plans with assets greater than accumulated obligation	Plans with accumulated obligations greater than assets
<b>Change in benefit obligation</b>		
Benefit obligation at beginning of year	\$ 103,365,000	24,281,621
Service cost	2,740,018	1,182,585
Interest cost	7,522,111	1,797,789
Amendments	24,244	—
Actuarial (gain)/loss	7,499,394	(323,557)
Curtailment loss	472,000	—
Benefits and expenses paid	(6,302,767)	(1,143,585)
Benefit obligation at end of year	\$ 115,320,000	25,794,853
<b>Change in plan assets</b>		
Fair value of plan assets at beginning of year	\$ 170,053,284	18,717,623
Actuarial return on plan assets	(2,599,756)	219,844
Employer contribution	528,742	899,424
Benefits and expenses paid	(6,302,767)	(1,143,585)
Fair value of plan assets at end of year	\$ 161,679,503	18,693,306
<b>Funded status</b>		
Funded status	\$ 46,359,503	(7,101,547)
Unrecognized transition amount	(421,518)	(48,281)
Unrecognized net actuarial (gain)/loss	(17,504,584)	2,722,350
Unrecognized prior service cost	1,390,898	—
Prepaid (accrued)/benefit cost	\$ 29,824,299	(4,427,478)
<b>Weighted average assumptions as of December 31, 2001</b>		
Discount rate	7.00 %	7.00 %
Expected return on plan assets	8.00	8.00
Rate of compensation increase	5.50	5.25
<b>Components of net periodic benefit cost</b>		
Service cost	\$ 2,740,018	1,182,585
Interest cost	7,522,111	1,797,789
Expected return on plan assets	(13,345,237)	(1,564,555)
Amortization of transition amount	(679,013)	(193,122)
Amortization of prior service cost	149,317	—
Curtailments	644,263	—
Recognized net actuarial gain	(1,757,863)	—
Net periodic (benefit) cost	\$ (4,726,404)	1,222,697

# ASH GROVE CEMENT COMPANY AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

December 31, 2001

### *Postretirement Benefits*

The Company provides life insurance and health care benefits for certain retirees and eligible dependents. The health plan is contributory and contains cost sharing features such as deductibles, coinsurance, and caps.

<u>Change in benefit obligation</u>	<u>2001</u>
Benefit obligation at beginning of year	\$ 38,085,000
Service cost	890,857
Interest cost	2,839,382
Plan participants' contributions	111,123
Actuarial loss	3,722,086
Curtailment gain	(157,249)
Benefits and expenses paid	(3,176,199)
Benefit obligation at end of year	<u>\$ 42,315,000</u>
<u>Change in plan assets</u>	
Fair value of plan assets at beginning of year	\$ —
Employer contribution	3,065,076
Plan participants' contributions	111,123
Benefits and expenses paid	(3,176,199)
Fair value of plan assets at end of year	<u>\$ —</u>
<u>Funded status</u>	
Funded status	\$ (42,315,000)
Unrecognized net actuarial loss	2,210,816
Unrecognized prior service cost	1,256,232
Accrued benefit cost	<u>\$ (38,847,952)</u>
<u>Weighted average assumptions as of December 31, 2001</u>	
Discount rate	7.00%
Rate of compensation increase	<u>5.50</u>
<u>Components of net periodic benefit cost</u>	
Service cost	\$ 890,857
Interest cost	2,839,382
Curtailments	136,464
Amortization of prior service cost	164,130
Net periodic benefit cost	<u>\$ 4,030,833</u>

## ASH GROVE CEMENT COMPANY AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

December 31, 2001

For measurement purposes, the health care cost trend rate was 7% in 2001. The effect of a 1% annual increase in assumed cost trend rates would increase the December 31, 2001 accumulated postretirement benefit obligation by approximately \$129,000, and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year ended December 31, 2001 by approximately \$9,000. The effect of a 1% annual decrease in assumed cost trend rates would decrease the December 31, 2001 accumulated postretirement benefit obligation by approximately \$132,000, and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year ended December 31, 2001 by approximately \$9,000.

The Company and subsidiaries have established an Employee Stock Ownership Plan and other employee benefit plans for nonunion and union employees. Contributions to the plans are made at the discretion of the respective Boards of Directors. Total contributions were \$2,700,000 in 2001.

#### (8) Commitments

##### *Stock Purchase Commitment*

The Company's 60.7% owned subsidiary, Conco, is party to an agreement whereby it is committed to purchase the balance of the common stock of Conco within ninety days of notification by the minority shareholders. At December 31, 2001, the total obligation for the purchase of shares covered by the commitment amounted to approximately \$7,411,000.

##### *Leases*

The Company occupies certain office and plant facilities under long-term noncancelable operating leases. Future commitments under such leases are as follows:

2002	\$	4,198,000
2003		3,574,000
2004		2,475,000
2005		1,793,000
2006		1,051,000
Thereafter		<u>978,000</u>
	\$	<u>14,069,000</u>

It is expected in the normal course of business that leases will be renewed or replaced as they expire. Rent expense under operating leases for the year ended December 31, 2001 amounted to approximately \$3,043,000.

## **ASH GROVE CEMENT COMPANY AND SUBSIDIARIES**

### **Notes to Consolidated Financial Statements**

December 31, 2001

#### **(9) Capital Stock**

Holders of common stock are entitled to one vote per share, holders of Class B common stock are entitled to ten votes per share, holders of Class C common stock are entitled to one vote per share, and holders of Class D common stock shall have no voting rights with respect to such stock. Each share of common stock, Class B common stock, Class C common stock and Class D common stock are equal in respect to dividends and distributions; provided, however, that any dividends or other distributions on each share of Class D common stock shall be equal to 105% times the amount of the dividends or distributions on each share of common stock, Class B common stock and Class C common stock. The transferability of Class B common stock and Class D common stock is substantially restricted to designated types of transferees. Each share of Class B common stock, Class C common stock or Class D common stock may at any time be converted into one fully paid and nonassessable share of common stock.

Permitted transferees generally include a transferring stockholder's spouse, certain lineal descendants, certain charitable organizations, corporations owned by Class B family members, and qualified company benefit plans, as defined. Class B common stock is convertible to common stock on a share for share basis, at any time, at the option of the stockholders.

The Company has 100,000 shares of preferred stock, \$10 par value, authorized and unissued.

The Company has 3,000,000 shares of Class D stock, without par value, authorized and unissued.

The Company has reserved 60,000 shares of common stock for issuance under a stock bonus plan, and 12,652 shares have been granted to date.

#### **(10) Financial Guarantees**

As of December 31, 2001, the Company has issued guarantees on approximately \$9,000,000 of borrowings by various joint ventures in which the Company holds an equity interest. The guarantees are both secured and unsecured. The Company monitors the financial performance of the joint ventures on a quarterly basis. No amount has been accrued for the Company's obligation under its guaranty arrangements.

#### **(11) Acquisitions of Businesses**

During 2001, the Company acquired three businesses and recorded the acquisitions using the purchase method of accounting. Accordingly, the results of operations of the acquired companies have been included in the consolidated results from their respective acquisition dates. In each acquisition, the purchase price allocation resulted in an excess of purchase price over the fair value of net assets acquired that was allocated to goodwill, which was being amortized on a straight-line basis over forty years. The assets acquired and liabilities assumed were recorded at estimated fair values as determined by the Company's management based on information currently available and on current assumptions as to future operations.

## ASH GROVE CEMENT COMPANY AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

December 31, 2001

A summary of the assets acquired and liabilities assumed in the acquisitions follows:

Estimated fair values:	
Assets acquired	\$ 17,720,153
Liabilities assumed	(5,623,684)
Goodwill	<u>10,345,846</u>
Purchase price	<u>\$ 22,442,315</u>

#### (12) Subsequent Event

In January 2002, a shareholder suit was filed against the Company and certain shareholders and officers of the Company. The Plaintiff alleges that, with respect to the Company's merger with Lyman-Richey and Vinton Corporation, the process used and the price paid to the shareholders of Lyman-Richey and Vinton Corporation were not entirely fair to the minority shareholders. The Plaintiff seeks to certify the action as a class action, rescind the merger, and recover other damages. The Company believes the lawsuit is without merit and intends to defend it vigorously.

The Company is a party to certain lawsuits and claims arising in the normal course of business. While the ultimate resolution of these lawsuits or claims cannot be predicted with certainty at this time, management believes that resolution of these matters will not have a material adverse effect on the financial position or results of operations of the Company.

#### (13) Change in Accounting Principle

Effective December 31, 2000, the Company changed its method of accounting for stores and supplies inventory cost from last-in, first-out (LIFO) to first-in, first-out (FIFO). This change in accounting principles was made to provide a better matching of revenues and related costs. This accounting change was applied retroactively and resulted in an increase to retained earnings previously reported as of December 30, 2000 in the amount of \$1,348,745.



## ASH GROVE CEMENT COMPANY AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

December 31, 2001

#### (14) Transaction With Parent

On December 31, 2000, the Company acquired all outstanding common shares of Vinton Corporation, the majority shareholder of 66.6% of the common stock of the Company in exchange for the issuance of 1,145,975 shares of the Company's common stock. As a result of this transaction, the Company became the sole owner of Vinton Corporation and Lyman-Richey Corporation, a 100% owned subsidiary of Vinton Corporation. This transaction was accounted for as a downstream merger and, as a result, purchase accounting was applied to the assets and liabilities of the Company to the extent of the minority interest ownership percentage prior to the transaction. The excess of the fair value of the minority interest (33.4%) of the Company over the historical cost basis of the Company's net assets prior to the merger was allocated to the Company's assets and liabilities. The fair values of the Company's assets and liabilities were determined by the Company's management based on information currently available and on current assumptions as to future operations. The market value of the common stock issued was based on an independent valuation. Stockholders' equity of the Company after the downstream merger reflects the stockholders' equity of Vinton Corporation prior to the merger adjusted for purchase accounting, as described above. A summary of the effect on the financial position of the Company due to the downstream merger is as follows:

Step-up of assets acquired from Ash Grove Cement Company	\$ 94,916,263
Step-up of liabilities assumed from Ash Grove Cement Company	(19,088,127)
Net assets of Vinton Corporation, exclusive of investment in Ash Grove Cement Company	<u>105,360,880</u>
Change in stockholders' equity	<u><u>\$ 181,189,016</u></u>

## **Independent Auditors' Report on Supplementary Data**

The Board of Directors  
Ash Grove Cement Company:

We have audited and reported separately herein on the consolidated financial statements of Ash Grove Cement Company and subsidiaries as of and for the year ended December 31, 2001.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements of Ash Grove Cement Company taken as a whole. The consolidating schedules and supplementary information are presented for purposes of additional analysis of the consolidated financial statements, and are not a required part of the basic consolidated financial statements. Such consolidating schedules and supplementary information have been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

As discussed in note 14 to the consolidated financial statements, effective December 31, 2000, the Company acquired all of the outstanding common shares of its parent in a business combination accounted for as a downstream merger. As a result of the acquisition, the consolidated financial information for 2001 is presented on a different cost basis than that for the periods before the merger and, therefore, is not comparable. As discussed in note 13 to the consolidated financial statements, effective for the year ended December 31, 2001, the Company has given retroactive effect to the change in its method of accounting for stores and supplies inventories from the last-in, first-out (LIFO) method to the first-in, first-out (FIFO) method.

**KPMG LLP**

February 15, 2002

## ASH GROVE CEMENT COMPANY AND SUBSIDIARIES

Consolidating Schedule - Financial Position

December 31, 2001

Assets	Ash Grove Cement Company	TYC Acquisition Company	Ash Grove Materials Corp.	Ash Grove Texas L.P., Inc.	Ash Grove Texas G.P., Inc.	Concrete Company of Springfield	Siouland Concrete Co.	Cedar Creek Properties Inc.	Subsurface Development Co.	Rivergate LPG Inc.	CSC Subsidiary Corp.	Eliminations	Consolidated
Current assets													
Cash	2,443,035	1,864,704	6,756,890	184	(3,634)	1,489,056	615,432	310,951	13,014	24,934	106	—	13,514,762
Short-term investments, at cost	61,138,765	16,472,635	—	—	—	—	—	—	—	—	—	—	77,611,400
Receivables													
Trade notes and accounts	61,069,251	16,336,269	11,060,496	—	—	3,549,261	399,703	1,102,732	—	—	—	(20,430,430)	73,087,282
Accrued interest	10,775	—	—	—	—	—	—	—	—	—	—	—	10,775
Income taxes	—	—	—	—	—	—	—	—	—	—	—	—	2,357,924
Miscellaneous	2,559,584	132,939	197,574	—	—	—	—	65,795	—	—	—	(941,756)	2,014,136
	63,639,610	16,469,208	11,258,070	—	—	3,549,261	399,703	1,168,527	—	—	—	(19,014,262)	77,470,117
Less allowance for doubtful receivables	2,295,467	1,000,000	447,710	—	—	701,000	10,000	—	—	—	—	—	4,454,177
Net receivables	61,344,143	15,469,208	10,810,360	—	—	2,848,261	389,703	1,168,527	—	—	—	(19,014,262)	73,015,940
Inventories	66,848,056	6,492,555	8,784,920	—	—	2,362,603	103,355	—	—	—	—	—	84,591,489
Real estate held for sale	—	582,756	—	—	—	—	—	8,701,133	—	—	—	(245,561)	9,038,328
Prepaid expenses	1,776,351	912,127	410,567	—	—	131,142	2,805	8,806	—	—	—	—	3,241,798
Deferred income taxes	5,703,000	—	—	—	—	514,000	—	—	—	—	—	—	6,217,000
Total current assets	199,253,350	41,794,075	26,762,737	184	(3,634)	7,345,062	1,111,295	10,189,417	13,014	24,934	106	(19,259,823)	267,230,717
Other assets													
Laid held for investment purposes	—	—	—	—	—	—	—	10,494,554	—	—	—	—	10,494,554
Costs of real estate development	—	—	—	—	—	—	—	8,793,734	—	—	—	—	8,793,734
Marketable equity securities	819,893	3,168,539	—	—	—	—	—	—	—	—	—	3,381,469	7,369,901
Investments in and advances to affiliates													
Investments	172,907,871	—	—	—	—	—	—	—	—	—	—	(172,907,871)	—
Advances	28,448,963	—	3,269,241	—	921,547	233,784	—	(467,226)	—	802,571	—	(31,718,204)	50,747,966
Investment in joint ventures	403,470	—	3,332,779	45,399,339	—	—	—	—	337,720	—	—	(216,018)	—
Notes receivable, due beyond one year	11,638,694	—	795,029	—	—	—	—	504,500	—	—	—	(11,905,307)	1,032,916
Unamortized debt expense	916,276	—	—	—	—	—	—	—	—	—	—	—	916,276
Goodwill	36,313,084	3,727,670	5,315,476	1,426,602	38,158	—	1,416,701	—	—	—	—	—	48,237,691
Other	33,638,833	1,436,520	654,288	9,202	9,232	45,005	140,842	441,014	—	—	—	(4,427,478)	31,947,458
Total other assets	285,087,084	8,332,729	13,366,813	46,835,143	968,937	278,789	1,557,543	19,766,576	337,720	802,571	—	(217,793,409)	159,540,496
Property, plant, and equipment	997,798,719	120,344,753	65,835,026	—	—	31,511,201	1,911,029	1,679,343	—	—	—	(194,499)	1,218,885,572
Less accumulated depreciation and depletion	389,059,103	52,622,117	35,964,205	—	—	20,097,289	123,689	941,968	—	—	—	(32,488)	498,775,883
Net property, plant, and equipment	608,739,616	67,722,636	29,870,821	—	—	11,413,912	1,787,340	737,375	—	—	—	(162,011)	720,109,689
	1,093,080,050	117,849,440	70,000,371	46,835,327	965,303	19,037,763	4,456,178	30,693,368	350,734	827,505	106	(237,215,243)	1,146,880,902

**ASH GROVE CEMENT COMPANY AND SUBSIDIARIES**  
Consolidating Schedule - Financial Position  
December 31, 2001

Liabilities and Stockholders' Equity (Deficit)	Ash Grove Cement Company	TVC Acquisition Company	Ash Grove Materials Corp.	Ash Grove Texas L.P., Inc.	Ash Grove Texas G.P., Inc.	Concrete Company of Springfield	Shouland Concrete Co.	Cedar Creek Properties Inc.	Subsurface Development Co.	Rivergate LFG Inc.	CSC Subsidiary Corp.	Eliminations	Consolidated
<b>Current liabilities:</b>													
Long-term debt, current	\$ 6,830,152	15,093,492	—	—	—	800,000	—	—	—	—	—	(15,093,492)	6,830,152
Notes payable	—	480,306	—	—	—	1,066,577	186,351	576,351	—	(954,990)	—	—	1,280,306
Accounts payable	17,190,019	4,923,465	6,134,519	583	(101,420)	—	43,845	926	—	—	—	(6,278,693)	22,742,762
Taxes withheld	951,819	98,612	214,541	—	—	—	5,312	253,432	—	—	—	—	1,309,743
Accrued taxes	2,040,325	895,729	254,680	—	—	—	42,557	207,231	—	—	—	—	3,449,478
Accrued expenses	9,729,176	5,658,079	644,441	—	105,750	964,190	165,000	305,567	(276,908)	(270,210)	50,000	2,357,924	17,401,424
Income taxes	(10,879,026)	(412,254)	54,893	8,783,196	176,721	—	—	—	—	—	(573)	—	—
<b>Total current liabilities</b>	<b>25,862,465</b>	<b>26,737,429</b>	<b>7,303,074</b>	<b>8,783,779</b>	<b>176,721</b>	<b>2,830,767</b>	<b>443,065</b>	<b>1,343,507</b>	<b>(276,908)</b>	<b>(1,225,200)</b>	<b>49,427</b>	<b>(19,014,261)</b>	<b>53,013,865</b>
<b>Deferred gain on intercompany transactions</b>	<b>411,976</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>358,310</b>	<b>—</b>	<b>—</b>	<b>(770,286)</b>	<b>—</b>
Long-term debt	59,762,712	—	—	1,835,396	51,045	—	—	(187,951)	10,016,872	—	—	(11,905,313)	59,762,712
Deferred income taxes	61,266,018	8,120,559	2,478,618	605,000	14,996	864,000	30,000	449,055	—	(129,000)	(20,294)	1,209,615	74,251,561
Pension/benefit obligation	33,792,635	—	4,696,272	—	—	—	—	—	—	—	—	—	38,847,952
Deferred liabilities	3,430,303	5,627,478	99,588	—	—	—	—	—	(879,272)	—	894,157	(4,427,478)	4,729,891
Advances from affiliate	1,625,698	—	15,886,974	—	—	—	1,500,000	12,690,646	(1,705,875)	—	—	(31,718,203)	6,029,775
Minority interest	—	—	—	—	—	—	—	—	—	—	—	—	—
<b>Stockholders' equity (deficit):</b>													
Common stock-no par. Authorized 10,000,000; issued 1,840,463	4,601,158	—	—	—	—	—	—	—	—	—	—	—	4,601,158
Class B common stock-no par. Authorized 5,000,000	11,448,500	—	—	—	—	—	—	—	—	—	—	—	11,448,500
Class C common stock-no par. Authorized 3,000,000	6,815,280	—	—	—	—	—	—	—	—	—	—	—	6,815,280
Common stock-no par. Authorized 1,000; issued 2,726,112	—	100	—	—	—	—	—	—	—	—	—	(100)	—
Common stock-\$1 par. Authorized and issued 200,000	—	—	200,000	—	—	—	—	—	—	—	—	(200,000)	—
Common stock-\$10 par. Authorized 15,000; issued 10,000	—	—	—	50,000	50,000	—	—	—	—	—	—	(100,000)	—
Common stock-\$1 par. Authorized 260,000; issued 210,945	—	—	—	—	—	210,945	—	—	—	—	—	(210,945)	—
Common stock-\$1 par. Authorized 1,000; issued 100	—	—	—	—	—	—	100	—	—	—	—	(100)	—
Common stock-\$10 par. Authorized 500,000; issued 60,000	—	—	—	—	—	—	—	600,000	—	—	—	(600,000)	—
Common stock-\$10 par. Authorized 3,000; issued 100	—	—	—	—	—	—	—	—	1,000	—	—	(1,000)	—
Common stock-\$10 par. Authorized 7,500; issued 5,000	—	—	—	—	—	—	—	—	—	50,000	—	(50,000)	—
Common stock-no par. Authorized 200,40 issued	—	—	—	—	—	—	—	—	—	—	8,000	(8,000)	—
Additional paid-in capital	346,683,523	2,540,233	25,425,000	50,000	50,000	1,068,848	2,179,511	26,548,845	—	1,275,000	—	(59,137,437)	346,683,523
Retained earnings (deficit)	596,279,972	73,390,453	14,000,845	35,776,308	626,340	15,511,456	303,502	(10,750,734)	(7,163,393)	856,705	(911,184)	(121,620,298)	596,279,972
Accumulated other comprehensive income	(1,081,918)	1,433,188	—	(265,156)	(5,799)	—	—	—	—	—	—	2,154,661	2,234,976
	964,746,515	77,363,974	39,625,845	35,611,152	720,541	16,791,249	2,483,113	16,398,111	(7,162,393)	2,181,705	(923,184)	(179,773,219)	968,063,409
<b>Cost of common shares in treasury</b>	<b>57,818,262</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>1,448,253</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(1,448,252)</b>	<b>57,818,263</b>
<b>Total stockholders' equity</b>	<b>906,928,253</b>	<b>77,363,974</b>	<b>39,625,845</b>	<b>35,611,152</b>	<b>720,541</b>	<b>15,342,996</b>	<b>2,483,113</b>	<b>16,398,111</b>	<b>(7,162,393)</b>	<b>2,181,705</b>	<b>(923,184)</b>	<b>(178,324,967)</b>	<b>910,245,146</b>
<b>Total</b>	<b>\$ 1,093,080,050</b>	<b>117,849,440</b>	<b>70,000,371</b>	<b>46,835,327</b>	<b>965,303</b>	<b>19,037,763</b>	<b>4,456,178</b>	<b>30,693,368</b>	<b>350,734</b>	<b>827,505</b>	<b>106</b>	<b>(237,215,243)</b>	<b>1,146,880,902</b>

See accompanying independent auditors' report on supplementary data

## ASH GROVE CEMENT COMPANY AND SUBSIDIARIES

Consolidating Schedule - Results of Operations

Year ended December 31, 2001

	Ash Grove Cement Company	TVC Acquisition Company	Ash Grove Materials Corp.	Ash Grove Texas L.P., Inc.	Ash Grove Texas G.P., Inc.	Concrete Company of Springfield	Siouxland Concrete Co.	Cedar Creek Properties Inc.	Subsurface Development Co.	Rivergate LPG Inc.	CSC Subsidiary Corp.	Eliminations	Consolidated
Net sales	\$ 464,841,555	139,791,753	87,665,772	—	—	26,623,989	5,158,062	9,648,850	—	—	—	(50,828,561)	682,901,420
Cost of sales	350,122,450	115,485,592	76,918,793	—	—	19,863,691	4,074,166	4,688,784	—	—	—	(51,174,931)	519,978,545
Gross profit	114,719,105	24,306,161	10,746,979	—	—	6,760,298	1,083,896	4,960,066	—	—	—	346,370	162,922,875
Selling, general, and administrative expenses	28,601,616	9,600,162	8,269,470	—	—	4,365,664	407,472	2,889,753	—	—	—	—	54,134,137
Operating income	86,117,489	14,705,999	2,477,509	—	—	2,394,634	676,424	2,070,313	—	—	—	346,370	108,788,7
Other income (deductions):													
Interest income	6,615,797	836,331	527,495	—	—	6,054	5,218	21,905	—	—	—	(4,058,091)	3,954,709
Interest expense	(2,472,515)	(884,003)	(1,043,739)	(233,213)	(5,445)	—	(78,772)	(942,078)	(598,776)	—	—	4,058,091	(2,200,450)
Dividends received	150,401	890	—	—	—	—	—	—	—	—	—	—	151,291
Equity in net earnings (losses) of joint ventures	(123,953)	—	606,783	14,813,280	302,312	19,743	—	(79,861)	(297,400)	(75,440)	—	—	15,165,464
Equity in net earnings of subsidiaries	21,746,045	—	—	—	—	—	—	—	—	—	—	(21,746,045)	—
Minority owners' equity in net earnings of subsidiary	—	—	—	—	—	—	—	—	171,036	—	—	(847,743)	(676,707)
Gain (loss) on sale of property, plant, and equipment - net	90,562	177,129	(27,505)	—	—	8,887	(5,000)	(4,947)	—	—	—	—	239,126
Miscellaneous, net	(1,031,416)	(14,095)	(379,987)	(7,997)	(27,783)	42,582	(99,368)	(263,421)	5	(215)	52,956	(334,022)	(2,062,761)
Total other income (deductions)	24,974,921	116,252	(316,953)	14,572,070	269,084	77,266	(177,922)	(1,268,402)	(725,135)	(75,655)	52,956	(22,927,810)	14,570,672
Earnings (loss) before income taxes	111,092,410	14,822,251	2,160,556	14,572,070	269,084	2,471,900	498,502	801,911	(725,135)	(75,655)	52,956	(22,581,440)	123,359,410
Income taxes:													
Current	29,285,000	4,107,000	223,000	8,785,000	175,000	770,000	165,000	305,000	(275,000)	(269,000)	(1,000)	—	43,270,000
Deferred	1,980,000	1,031,000	438,000	(3,210,000)	(70,000)	(20,000)	30,000	(1,000)	57,000	—	22,000	5,000	262,000
Total income taxes	31,265,000	5,138,000	661,000	5,575,000	105,000	750,000	195,000	304,000	(218,000)	(269,000)	21,000	5,000	43,532,000
Net earnings (loss)	\$ 79,827,410	9,684,251	1,499,556	8,997,070	164,084	1,721,900	303,502	497,911	(507,135)	193,345	31,956	(22,586,440)	79,827,410

See accompanying independent auditors' report on supplementary data.



## ASH GROVE CEMENT COMPANY AND SUBSIDIARIES

Consolidating Schedule - Retained Earnings (Deficit)

Year ended December 31, 2001

	Ash Grove Cement Company	TVC Acquisition Company	Ash Grove Materials Corp.	Ash Grove Texas L.P., Inc.	Ash Grove Texas G.P., Inc.	Concrete Company of Springfield	Siouxland Concrete Co.	Cedar Creek Properties Inc.	Subsurface Development Co.	Rivergate LFG Inc.	CSC Subsidiary Corp.	Eliminations	Consolidated
Balance at December 30, 2000,	\$ 696,754,671	—	12,501,289	26,779,238	462,256	15,790,267	—	(11,248,646)	(6,656,258)	913,360	(963,140)	(37,578,366)	696,754,671
as previously reported													
Effect of downstream merger	(168,887,926)	63,706,202	—	—	—	—	—	—	—	—	—	(63,706,202)	(168,887,926)
with parent													
Change of accounting principle	1,348,745	—	—	—	—	—	—	—	—	—	—	—	1,348,745
Balance at December 31, 2000	\$ 529,215,490	63,706,202	12,501,289	26,779,238	462,256	15,790,267	—	(11,248,646)	(6,656,258)	913,360	(963,140)	(101,284,568)	529,215,490
Net earnings (loss)	79,827,410	9,684,251	1,499,556	8,997,070	164,084	1,721,900	303,502	497,911	(507,135)	193,345	31,956	(22,586,440)	79,827,410
	609,042,900	73,390,453	14,000,845	35,776,308	626,340	17,512,167	303,502	(10,750,735)	(7,163,393)	1,106,705	(931,184)	(123,871,008)	609,042,900
Cash dividends	(12,762,928)	—	—	—	—	(2,000,711)	—	—	—	(250,000)	—	2,250,711	(12,762,928)
Balance at end of year	\$ 596,279,972	73,390,453	14,000,845	35,776,308	626,340	15,511,456	303,502	(10,750,735)	(7,163,393)	856,705	(931,184)	(121,620,297)	596,279,972

See accompanying independent auditors' report on supplementary data.

## ASH GROVE CEMENT COMPANY AND SUBSIDIARIES

Consolidating Schedule – Selling, General, and Administrative Expenses

Year ended December 31, 2001

	Ash Grove Cement Company	TVC Acquisition Company	Ash Grove Materials Corp.	Concrete Company of Springfield	Siouxland Concrete Company	Cedar Creek Properties Inc.	2001 Consolidated
Advertising	\$ 152,232	183,848	146,443	125,462	11,769	103,433	723,187
Auto leasing	47,962	—	—	—	—	—	47,96
Contributions	249,934	185,703	43,621	92,502	2,203	1,730	575,695
Association dues	1,896,427	—	—	—	—	—	1,896,427
Data processing expense	278,826	169,093	87,970	—	—	2,790	538,679
Dues - miscellaneous	279,412	78,201	120,842	91,842	7,106	13,708	591,111
Group life and hospital insurance	1,368,814	399,214	379,095	153,407	20,047	246,925	2,567,502
Insurance, general	67,891	28,991	34,924	44,268	5,132	11,012	192,218
Legal, auditing, and other professional fees	1,641,517	621,865	238,729	178,747	62,970	298,534	3,042,362
Office expense and supplies	399,397	250,833	180,562	142,602	21,804	25,078	1,020,276
Pensions	308,060	278,283	136,724	—	—	604	723,671
ESOP contributions and profit sharing	323,941	—	217,816	617,810	—	—	1,159,567
Postage	147,786	88,253	51,834	—	—	—	291,156
Printing and stationery	38,794	—	—	—	—	3,283	47,632
Rent, utilities, and maintenance	1,158,584	49,526	247,871	105,922	1,824	893,236	2,456,963
Salaries	12,094,168	5,061,613	4,087,000	1,742,096	210,052	973,093	24,168,022
Taxes – payroll	752,594	—	300,858	141,700	15,533	72,358	1,283,043
Taxes – miscellaneous	361,564	82,612	88,146	96,860	—	100,285	729,467
Telephone and communications	341,139	319,487	280,267	130,439	8,234	14,481	1,094,047
Traveling expenses	1,893,609	204,323	496,867	135,122	16,534	4,684	2,751,137
Sales promotion and customers' allowances	543,332	68,684	346,713	—	—	31,615	990,34
Depreciation and amortization	733,003	403,098	494,494	177,217	5,072	75,808	1,888,692
Research and experimental	1,165,070	—	—	—	—	—	1,165,070
Provision for bad debts	(3,341)	433,156	58,799	137,745	10,098	(2,271)	634,186
Truck and equipment expense	2,289	263,059	109,225	94,866	—	—	469,439
Miscellaneous	553,510	430,320	75,988	157,057	9,094	10,529	1,236,498
Software implementation cost	179,953	—	—	—	—	—	179,953
MEP implementation cost	1,367,330	—	—	—	—	—	1,367,330
Paper bags	434,715	—	—	—	—	—	434,715
Affiliate reimbursement	(176,896)	—	44,682	—	—	—	(132,214)
	\$ 28,601,616	9,600,162	8,269,470	4,365,664	407,472	2,889,753	54,134,137

See accompanying independent auditors' report on supplementary data.

**ASH GROVE MATERIALS CORPORATION**  
Consolidating Schedule -- Financial Position  
December 31, 2001

Assets	Ash Grove Materials Corp.	Fordyce Concrete Co., Inc.	Material Transport Company	Union Quarries, Inc.	Century Concrete Inc.	Precision Packaging Inc.	Materials Packaging Corp.	Ash Grove Aggregates Inc.	Permanent Paving Inc.	Eliminations	Consolidated
Current assets:											
Cash	\$ 75,190	115,675	818,195	45,848	423,063	1,314,612	525,270	3,259,040	179,997	—	6,756,890
Receivables:											
Trade notes and accounts	—	2,938,381	63,546	2,901	1,988,520	1,671,316	1,856,613	2,101,256	506,989	(69,026)	11,060,496
Miscellaneous	103,589	150,414	—	388,405	7,556	16,421	17,597	15,090	300	(501,798)	197,574
Less allowance for doubtful receivables	103,589	3,088,795	63,546	391,306	1,996,076	1,687,737	1,874,210	2,116,346	507,289	(570,824)	11,258,070
Net receivables	—	87,946	—	—	119,591	79,605	93,650	66,918	—	—	447,710
Inventories	103,589	3,000,849	63,546	391,306	1,876,485	1,608,132	1,780,560	2,049,428	507,289	(570,824)	10,810,360
Prepaid expenses	—	453,058	14,658	—	274,772	863,829	1,216,997	5,961,606	—	—	8,784,920
Total current assets	55,168	97,589	45,155	—	73,954	25,519	22,717	84,061	6,404	—	410,567
Other assets:	233,947	3,667,171	941,554	437,154	2,648,274	3,812,092	3,545,544	11,354,135	693,690	(570,824)	26,762,737
Investments in and advances to affiliates:											
Investments	39,492,983	—	—	—	—	—	—	—	—	(39,492,983)	—
Advances	—	—	—	1,745,773	—	—	—	1,523,468	—	—	3,269,241
Investment in joint venture	—	(30,657)	—	—	—	—	—	3,363,436	—	—	3,332,779
Notes receivable, due beyond one year	—	—	—	600,000	195,029	—	—	—	—	—	795,029
Goodwill	—	—	—	—	(58,154)	—	5,315,476	—	—	—	5,315,476
Other	(29,556)	11,131	(34,359)	—	—	500,264	341,833	(54,292)	(22,579)	—	694,288
Total other assets	39,463,427	(19,526)	(34,359)	2,345,773	136,875	500,264	5,657,309	4,832,612	(22,579)	(39,492,983)	13,366,813
Property, plant, and equipment	166,234	13,113,695	248,775	132,164	11,328,831	8,406,354	6,183,934	25,206,714	1,048,325	—	65,835,026
Less accumulated depreciation and depletion	116,549	8,061,753	166,426	61,346	5,419,093	3,522,638	1,495,030	16,620,420	500,930	—	35,964,205
Net property, plant, and equipment	49,685	5,051,942	82,349	70,818	5,909,738	4,883,696	4,688,904	8,586,294	547,395	—	29,870,821
	\$ 39,747,059	8,699,587	989,544	2,853,745	8,694,887	9,196,052	13,891,757	24,773,041	1,218,506	(40,063,807)	70,000,371



**ASH GROVE MATERIALS CORPORATION**  
Consolidating Schedule – Financial Position  
December 31, 2001

	Ash Grove Materials Corp.	Fordyce Concrete Co., Inc.	Material Transport Company	Union Quarries, Inc.	Century Concrete Inc.	Precision Packaging Inc.	Materials Packaging Corp.	Ash Grove Aggregates Inc.	Permanent Paving Inc.	Eliminations	Consolidated
<b>Liabilities and Stockholders' Equity (Deficit)</b>											
<b>Current liabilities:</b>											
Accounts payable	\$ 40,401	2,530,171	139,515	(412)	1,285,768	771,524	1,452,293	343,777	142,306	(570,824)	6,134,519
Taxes withheld	6,126	138	2,246	(119)	81,888	43,429	26,899	45,810	8,124	—	214,541
Accrued taxes	1,961	7,648	3,818	—	69,013	109,472	76,474	(22,475)	8,769	—	254,680
Accrued expenses	1,025	234,851	8,584	—	78,276	144,533	42,633	127,111	7,428	—	644,441
Income taxes	696	(543,541)	(26,303)	53,174	(155,282)	420,929	(103,802)	371,283	37,739	—	54,893
Total current liabilities	50,209	2,229,267	127,860	52,643	1,359,663	1,489,887	1,494,497	865,506	204,366	(570,824)	7,303,074
Deferred income taxes	(56,221)	830,141	(152,227)	(3,901)	578,641	571,422	(172,500)	840,079	43,184	—	2,478,618
Postretirement benefit obligation	64,638	(10,799)	401,272	3,675	1,192,190	1,027,289	548,584	1,300,833	78,590	—	4,606,272
Deferred liabilities	62,588	—	—	—	—	—	37,000	—	—	—	99,588
Advances from affiliate	—	6,049,947	—	—	3,229,301	—	6,436,424	—	171,302	—	15,886,974
<b>Stockholders' equity (deficit):</b>											
Common stock-\$1 par. Authorized and issued 200,000	200,000	—	—	—	—	—	—	—	—	—	200,000
Common stock-\$1 par. Authorized 10,500; issued 10,450	—	10,450	—	—	—	—	—	—	—	(10,450)	—
Common stock-\$10 par. Authorized 3,000; issued 50	—	—	500	—	—	—	—	—	—	(500)	—
Common stock-\$10 par. Authorized and issued 10,000	—	—	—	100,000	—	—	—	—	—	(100,000)	—
Common stock-\$10 par. Authorized 2,000; issued 1,000	—	—	—	—	10,000	—	—	—	—	(10,000)	—
Common stock-\$10 par. Authorized 2,000; issued 1,000	—	—	—	—	—	10,000	—	—	—	(10,000)	—
Common stock-\$10 par. Authorized 2,000; issued 1,000	—	—	—	—	—	—	10,000	—	—	(10,000)	—
Common stock-\$10 par. Authorized 3,000; issued 1,000	—	—	—	—	—	—	—	10,000	—	(10,000)	—
Common stock-\$10 par. Authorized 2,000; issued 1,000	—	—	—	—	—	—	—	—	—	(10,000)	—
Additional paid-in capital	25,425,000	4,250,189	145,000	900,000	3,290,000	2,574,486	9,737,000	6,348,435	10,000	(10,000)	25,425,000
Retained earnings (deficit)	14,000,845	(4,659,608)	467,139	1,801,328	(964,908)	3,522,968	(4,199,248)	15,408,188	400,000	(27,645,110)	14,000,845
Total stockholders' equity	39,625,845	(398,969)	612,639	2,801,328	2,335,092	6,107,454	5,547,752	21,766,623	721,064	(39,492,983)	39,625,845
	\$ 39,747,059	8,699,587	989,544	2,853,745	8,694,887	9,196,052	13,891,757	24,773,041	1,218,506	(40,063,807)	70,000,371

See accompanying independent auditors' report on supplementary data.

## ASH GROVE MATERIALS CORPORATION

Consolidating Schedule - Results of Operations

Year ended December 31, 2001

	Ash Grove Materials Corp.	Fordyce Concrete Co., Inc.	Material Transport Company	Union Quarries Inc.	Century Concrete Inc.	Precision Packaging Inc.	Materials Packaging Corp.	Ash Grove Aggregates Inc.	Permanent Paving Inc.	Eliminations	Consolidated
Net sales	\$ —	21,123,894	1,787,714	—	15,219,049	18,013,896	16,700,675	12,505,792	4,362,326	(2,047,574)	87,665,772
Cost of sales	—	20,367,898	1,547,091	—	13,798,538	14,747,790	14,395,230	10,342,535	3,767,285	(2,047,574)	76,918,793
Gross profit	—	755,996	240,623	—	1,420,511	3,266,106	2,305,445	2,163,257	595,041	—	10,746,979
Selling, general, and administrative expenses	33,720	1,253,299	308,852	18,354	1,460,699	1,909,758	1,651,979	1,098,474	534,335	—	8,269,470
Operating income (loss)	(33,720)	(497,303)	(68,229)	(18,354)	(40,188)	1,356,348	653,466	1,064,783	60,706	—	2,477,509
Other income (deductions):											
Interest income	885	7,456	—	152,914	18,924	99,818	—	245,705	1,793	—	527,495
Interest expense	—	(384,764)	—	—	(212,298)	—	(426,895)	(887)	(18,895)	—	(1,043,739)
Equity in net earnings of joint venture	—	(6,610)	—	—	—	—	—	613,393	—	—	606,783
Equity in net earnings of subsidiaries	1,521,064	—	—	—	—	—	—	—	—	(1,521,064)	—
Gain (loss) on sale of property, plant, and equipment - net	6,327	7,920	—	—	(22,540)	(37,402)	(6,718)	25,727	(819)	—	(27,505)
Miscellaneous, net	—	(407,615)	7,797	2,222	42,721	8,321	6,678	(60,542)	20,431	—	(379,987)
Total other income (deductions)	1,528,276	(783,613)	7,797	155,136	(173,193)	70,737	(426,935)	823,396	2,510	(1,521,064)	(316,953)
Earnings (loss) before income taxes	1,494,556	(1,280,916)	(60,432)	136,782	(213,381)	1,427,085	226,531	1,888,179	63,216	(1,521,064)	2,160,556
Income taxes:											
Current	—	(540,000)	(18,000)	56,000	(155,000)	525,000	(103,000)	420,000	38,000	—	223,000
Deferred	(5,000)	60,000	(3,000)	—	80,000	35,000	203,000	80,000	(12,000)	—	438,000
	(5,000)	(480,000)	(21,000)	56,000	(75,000)	560,000	100,000	500,000	26,000	—	661,000
Net earnings (loss)	\$ 1,499,556	(800,916)	(39,432)	80,782	(138,381)	867,085	126,531	1,388,179	37,216	(1,521,064)	1,499,556

See accompanying independent auditors' report on supplementary data.

**ASH GROVE MATERIALS CORPORATION**  
Consolidating Schedule – Retained Earnings (Deficit)  
Year ended December 31, 2001

	Ash Grove Materials Corp.	Fordyce Concrete Co., Inc.	Material Transport Company	Union Quarries, Inc.	Century Concrete Inc.	Precision Packaging Inc.	Materials Packaging Corp.	Ash Grove Aggregates Inc.	Permanent Paving Inc.	Eliminations	Consolidated
Balance at beginning of year	\$ 12,501,289	(3,858,692)	506,571	1,720,546	(826,527)	6,255,883	(4,325,779)	14,020,009	273,848	(13,765,859)	12,501,289
Net earnings (loss)	1,499,556	(800,916)	(39,432)	80,782	(138,381)	867,085	126,531	1,388,179	37,216	(1,521,064)	1,499,556
Dividends paid	14,000,845	(4,659,608)	467,139	1,801,328	(964,908)	7,122,968	(4,199,248)	15,408,188	311,064	(15,286,923)	14,000,845
Balance at end of year	\$ 14,000,845	(4,659,608)	467,139	1,801,328	(964,908)	3,600,000	(4,199,248)	15,408,188	311,064	(3,600,000)	14,000,845
						3,522,968				(11,686,923)	
											14,000,845

See accompanying independent auditors' report on supplementary data.

## ASH GROVE MATERIALS CORPORATION

Consolidating Schedule – Selling, General, and Administrative Expenses

Year ended December 31, 2001

	Ash Grove Materials Corp.	Fordyce Concrete Co., Inc.	Material Transport Company	Union Quarries, Inc.	Century Concrete Inc.	Precision Packaging Inc.	Materials Packaging Corp.	Ash Grove Aggregates Inc.	Permanent Paving Inc.	2001 Consolidated
Advertising	—	2,801	—	—	4,472	81,894	45,497	7,602	4,177	146,443
Contributions	3,550	5,471	1,203	—	3,688	1,900	150	4,893	22,766	43,621
Data processing expense	27,073	8,136	998	—	6,608	21,538	9,635	12,646	1,336	87,970
Dues – miscellaneous	11,776	18,967	261	—	17,985	15,512	15,307	17,923	23,111	120,842
Group life and hospital insurance	106,615	93,103	64,009	—	91,242	—	—	24,126	24,126	379,095
Insurance, general	2,057	13,159	6,697	20	—	(3,020)	—	8,482	7,529	34,924
Legal, auditing, and other professional fees	185	53,313	4,068	—	83,769	19,165	3,568	69,373	5,288	238,729
Office expense and supplies	25,581	15,022	595	—	20,360	47,495	48,196	16,116	7,197	180,562
Pensions	16,780	17,011	21,766	—	63,605	—	1,649	—	15,913	136,724
ESOP contributions and profit sharing	18,167	15,039	31,430	—	55,769	55,180	27,406	—	14,825	217,816
Postage	14,000	178	—	—	3,716	21,307	6,362	6,271	—	51,834
Rent, utilities, and maintenance	124,770	11,419	—	—	1,868	47,345	46,847	15,622	—	247,871
Salaries	593,116	405,355	64,474	—	555,755	936,288	759,564	591,740	180,708	4,087,000
Taxes – payroll	42,765	36,357	5,161	—	54,481	68,571	76,122	—	17,401	300,858
Taxes – miscellaneous	5,198	11,741	2,581	12,373	19,481	1,695	13,396	20,381	1,300	88,146
Telephone and communications	28,161	25,851	5,909	—	34,932	96,348	47,002	20,871	21,193	280,267
Traveling expenses	28,716	65,262	2,353	—	75,119	117,284	131,180	57,438	19,515	496,867
Sales promotion and customers' allowances	11,215	12,274	1,751	—	24,925	209,943	43,442	17,051	26,112	346,713
Depreciation and amortization	29,660	62,181	9,478	—	74,937	58,558	180,931	58,287	20,462	494,494
Provision for bad debts	—	(1,918)	—	—	—	(26,568)	56,048	12,000	19,237	58,799
Truck and equipment expense	—	7,649	4,434	—	—	3,472	5,532	27,883	60,255	109,225
Miscellaneous	3,058	37,561	593	—	7,818	4,088	17,760	3,700	1,139	75,988
Administrative fee	134,796	337,367	81,091	5,690	260,169	131,763	116,385	130,195	40,745	1,238,201
Affiliate reimbursement	(1,193,519)	—	—	—	—	—	—	—	—	(1,193,519)
	\$ 33,720	\$ 1,253,299	\$ 308,852	\$ 18,354	\$ 1,460,699	\$ 1,909,758	\$ 1,651,979	\$ 1,098,474	\$ 534,335	\$ 8,269,470

See accompanying independent auditors' report on supplementary data.